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SUBJECT: JORDAN REDEEMS ITS BRADY BONDS

11. (SBU) SUMMARY: A December 2003 redemption by the Jordanian Ministry of Finance of the balance of Jordan,s Brady bonds will result in substantial savings in annual interest payments by the GOJ. While the rising value of Jordan,s euro-denominated debt has essentially offset the buyback's impact on Jordan's debt-to-GDP ratio, this move for early redemption of high-cost foreign debt and replacement of it by low-cost domestic debt points the way forward for Jordan,s Ministry of Finance if Jordan,s creditors will allow it. END SUMMARY.

12. (SBU) In December 2003, the Ministry of Finance redeemed all of its outstanding Brady bonds, paying a market price of JD 210.8 million (approx. US\$300 million) for zero coupon bonds with a face value of US\$465 million. Together with the elimination of 70 million British pounds of debt through a debt-equity swap with Britain, which also took place in December, the GOJ eliminated 6% of its outstanding foreign debt. According to Finance Ministry sources, the Brady buyback alone will save Jordan \$17 million per year in interest payments through the year the bonds were to be retired (in 2023).

13. (SBU) Due to a significant decline in the value of the dinar against the euro and the yen (which has increased the dinar value of Jordan,s substantially euro and yen-denominated foreign debt), however, Jordan,s overall amount of foreign debt grew slightly during 2003 to US\$5,392 million or 76.9% of GDP. Consonant with policies agreed with the IMF, the Brady bond redemption was financed with domestic debt. As this debt receives a lower rate of interest than did the Brady bonds, the cost savings for the government of Jordan still looks to be substantial.

14. (SBU) Visiting IMF staff told us in a private meeting February 17 that the most rational course of action for the Finance Ministry would be to continue such efforts to replace foreign with domestic debt, particularly in the case of old, high-interest debt owed to European export credit agencies. The IMF still feared, however, that the Paris Club will reject this approach and instead insist that any prepayments give equal weight to all creditors, regardless of the interest rate of their debt. While this would still generate cost savings for the Jordanians, these savings will be much less substantial.  
GNEHM